

October 26, 1962

MEMORANDUM

TO: The Secretary

FROM: Arnyess Joy Wickens

SUBJECT: Economic Outlook and Tax Policy;
Remarks by Walter Heller and Stanley Surrey before the
National Association of Business Economists - October 25-26



Economic Outlook

Walter Heller: It is obviously too soon to assess the effects of the Cuban crisis, but:

In the current quarter, a fairly good rise is expected in GNP - over \$5 billion - to a total of more than \$560 billion.

For the first part of 1963, continued high level activity is anticipated. He implied some further modest growth (but not enough),

The business economists: (polled pre Cuba) Generally forecast a mild downturn in the first six months, followed by an upturn in the latter half of 1963, with an average of GNP for the year only slightly higher than 1962. (This implies a sharp rise in unemployment.) There are some dissenters, but no one expects a substantial rise.

In consequence of Cuba, (and also assuming no more severe crisis) they see a somewhat higher level of activity than this earlier forecast, with greater stimulus from (a) accelerated defense expenditures (b) faster replacement of durable goods by consumers (c) a firming-up on inventory policy and prices, but no great rush to accumulate big inventories.

Basic economic factors in relation to the Cuban crisis

Walter Heller: We are economically better able to adjust to this crisis than to the Korean crisis because of:

1. Under-utilized capacity and some reserve labor supply.
2. Ample supplies of most commodities and,
3. Prices stable to declining in most markets. Wholesale prices have not changed materially in over four years; our average index was recovery levels of 1961, with world raw materials especially weak.

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4. Consumers are better equipped with durable goods - autos, household equipment etc. Their needs are now primarily for replacement.

In short, we are not in an inflationary situation and have not been for some time.*

5. In relation to Europe and Japan, our prices and hourly earnings have risen at a much slower rate in the last few years.

Tax Policy

Walter Heller and Stanley Surrey:

No decisions have been taken re a tax reduction - whether there will be one, its timing, its magnitude, or whether it will be tied in with tax reform. These decisions will be made early in December. Advice is invited.

A tax reduction, in the face of a growing deficit, is "unorthodox fiscal policy", yet it may be good policy. Taxes were reduced in 1954 in face of a deficit, and revenues rose the next year. More public education is needed on the economic consequences of fiscal policy.

Tax reduction as a spur to long-term economic growth and attainment of full employment was given great emphasis. References were made to high U. S. rates of corporate and individual taxes in comparison with other countries; and to their deterrent effects upon expansion in recent years. (As an observer, I judge that both men think a tax cut is of great importance for long-range structural reasons, even in a crisis.)

Tax reform has been - and is - a major goal of this Administration. to (a) spur growth (b) remove inequities and (c) simplify taxes. No details were discussed. As to whether tax reduction would be presented together with tax reform in 1963, Surrey says, "Time will tell". The 1963 tax bill was a beginning toward reform and accomplished more than its critics say.

Effects of the 7 percent tax credit and revised depreciation guidelines will not be seen quickly. They are complex and few firms have yet decided how to deal with them, but cash flow should be increased in 1963, based on 1962 available deductions. (Of which more in a separate memorandum.)

Mr. Heller spent considerable time on the big 0.6 percent rise in the September CPI, announced today, saying there is always some "special" factor that makes it go up.